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NONAPPROPRIATED FUND CONSTRUCTION 1986

REPORT

OF THE

MORALE, WELFARE AND RECREATION (MWR) PANEL OF THE READINESS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES

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LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, January 6, 1985.

Hon. LES ASPIN,
Chairman, Committee on Armed Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Attached is a report entitled "Nonappropriated Fund Construction—1986" approved without objection by the subcommittee members. This report is based on a series of hearings held during October 1985 by the Morale, Welfare and Recreation Panel of the Readiness Subcommittee.

I shall appreciate your early approval of the report so that it may be printed.

Sincerely,

DAN DANIEL,
Chairman, Subcommittee on Readiness.

Approved for printing:
Les Aspin, Chairman.

NONAPPROPRIATED FUND CONSTRUCTION—1986

Executive Summary

The Morale, Welfare and Recreation Panel annually reviews the military services' nonappropriated fund construction programs containing projects costing over $500,000. Nonappropriated funds are dollars generated by service members and their families through various resale activities. Profits from exchanges, bowling centers, et cetera, are used to build new facilities like commissaries, clubs and youth centers, or to support morale, welfare and recreation programs not traditionally funded by taxpayers.

Because of the record size of the 1986 program—more than $500 million—the panel held comprehensive hearings to evaluate these programs. A number of projects, by their nature or location, raised policy issues requiring panel consideration. For example, requests to build MWR facilities at reserve bases, to expand clubs into family health centers or to build hotels on-base must be reviewed in the context of their impact on overall MWR policy.

These matters were addressed during three days of hearings in October when the panel heard testimony from Department of Defense, industry and military service witnesses. Based on the hearings and evaluations of project justifications, the panel:

—recommended that the Secretary of Defense restructure the Morale, Welfare and Recreation Coordinating Committee as the lead organization for nonappropriated fund construction policy;

—strongly opposed the construction of on-base, first class hotels and directed that new guest houses be operated on a self-sufficiency basis;

—rejected the request to build morale, welfare and recreation projects on reserve bases;

—recommended that profit generating projects (e.g. bowling centers) be operated on a business-like basis, with minimal appropriated fund support and fees established to cover operating costs;

—suggested increased use of turnkey procurement, standard designs, preselected equipment and specialized contractors to reduce construction time and cost;

—approved most military club projects but advised the Department of Defense that future projects will not be considered until an in-depth study of the military club system is submitted to the panel;

—deferred three projects for consolidated Class VI stores and morale, welfare and recreation warehouses pending an Army analysis verifying the economies of the concept;

—approved a number of fast food facility projects subject to the fiscal year 1986 language in the Authorization Conference Report;
—deferred ten fast food facility projects because of project uncertainties and delay;
—deferred four projects because of actions taken by the military construction subcommittees; and
—deferred twelve projects because of excessive cost, inadequate justification or incomplete design. Projects, such as six lane bowling centers, were deferred because they could not be economically operated. Projects that cannot cover operating costs from revenues should only be considered for remote or isolated locations.

Introduction

Nonappropriated funds are dollars generated by service members and their families through various resale activities. Profits from exchanges, bowling centers, etc., are used to build new facilities and support morale, welfare and recreation programs not traditionally funded by taxpayers.

The Readiness Subcommittee's Morale, Welfare and Recreation Panel annually reviews the military services' nonappropriated fund construction programs, which include projects like commissaries, exchanges, clubs, youth centers, athletic fields, etc. costing over $500,000. This year's program included almost 200 projects worldwide totaling $500 million.

The panel felt this was an appropriate time for comprehensive hearings to evaluate these programs. A number of projects, by their nature or location, raised policy issues requiring panel consideration. For example, requests to build MWR facilities at reserve bases, to expand clubs into family health centers or to build hotels on-base must be reviewed in the context of their impact on overall MWR policy.

These hearings also allowed the services the opportunity to explain their construction and operating philosophies. During three days of hearings in October, the panel heard from representatives of the Office of the Secretary of Defense, the Army, the Navy and the Air Force, as well as industry witnesses.

The guidance and policy decisions in this report were developed from testimony received during the hearings, detailed evaluations of project justifications and a review of current regulations.

Active MWR Oversight by OSD Is Needed

One central theme ran throughout the hearings: there is a need for a vehicle within the Office of the Secretary of Defense (OSD) to develop consistent, coherent, strategic MWR policies that incorporate both construction and operational considerations. Many examples surfaced during the hearings of the services independently developing their construction programs with little central guidance or comprehensive reviews by OSD. In addition, it became obvious that construction decisions cannot be made in isolation because they are intertwined with personnel and programming issues.

There was general agreement during the hearings that OSD's role has been one of developing consensus-based *operational* policies. However, as reflected by the issues in this report a broader OSD role is needed.

—Military club systems are in financial difficulty with their future role in doubt. Yet, club construction programs continue unabated while the services separately try to develop long-range strategies. This problem is an obvious candidate for a department-wide coordinated analysis of the future role for military clubs.

—The Air Force decisions to build MWR facilities on reserve bases and at locations with only 75 active duty personnel has far reaching implications for the other services. These decisions should have been analyzed in the context of both need and their potential impact on the other services.

—When the panel discovered that the Air Force was interpreting the DOD policy on appropriated fund support for golf courses differently than the other services, this matter was not resolved at the OSD level. Instead, the Air Force developed a separate policy for using appropriated funds and now there are two interpretations of what is allowable.

—The services are proposing several initiatives that would greatly expand their lodge programs, including third party financing and first class hotels on-base. There are considerable differences among the services as to the objective, need and scope for these programs. Clear department-wide guidance is needed for these programs.

These types of issues potentially affect all services and need department-wide direction and policies. Unfortunately, OSD is not effectively dealing with such issues or providing the needed oversight.

At the same time, there is a need to coordinate policies on personnel, programs, and construction. Currently, these areas of responsibility are divided between two Assistant Secretaries of Defense; one who establishes maximum sizes for facilities based on engineering estimates and another who establishes personnel and program policies. Since facility sizing flows from the operators who make programming and personnel decisions, these operational decisions must be coordinated with engineering standards to properly size a facility.

Finally, while OSD has published much guidance in the last few years, they do not actively determine how these policies are being implemented. As revealed during the hearings, there is a wide divergence among the services in implementing OSD policies.

An organization cannot promulgate policy without following up to see how it is implemented. This is abdication, not oversight. There is a real need for OSD, perhaps through the DOD Inspector General, to start reviewing how its policies are being implemented by the services.

The existing MWR Coordinating Committee could be the vehicle to improve OSD policy making and oversight. However, the Committee will have to expand its policy role and membership to begin addressing department-wide issues.

The panel recommends that OSD restructure the MWR Coordinating Committee as the Departmental lead organization for MWR policy and construction. At the same time OSD should begin using the Department's audit resources to determine how its policies are being interpreted and implemented.

Facilities at New Locations

The Air Force has started building commissaries at several strategic bombing range sites, like Belle Fourche, South Dakota and La Junta, Colorado. These small stores cost about $400,000 each to support the 70 to 75 personnel stationed at these locations. The Air Force has decided not to build dining halls but instead is building kitchen-equipped dormitories at these sites. Almost $1 million per year in appropriated funds will be needed to support these stores. In addition, these small stores will not generate sufficient surcharge revenues to even cover their expenses.

The panel does not agree with the decision to use surcharge funds in place of appropriated dollars to build and maintain dining facilities at these sites. However, the panel will not oppose these projects since five of the eight sites are under contract. This should *not* be considered any form of a precedent because the panel *strongly opposes* building commissaries for such small numbers of active duty personnel.

If the panel had been consulted before contracts were let, it probably would have recommended deferring the projects. While the Air Force was not formally required, under current DOD instructions, to inform the panel of these projects, the Department should realize that when any projects are being considered that may set a precedent in these sensitive areas, the panel should be consulted for guidance *before* proceeding. This is particularly true with commissary projects in light of the congressional mandated limit on the number of U.S. commissaries and potential funding constraints.

This is not the first instance where the Department made decisions affecting nonappropriated funds without consulting the panel. The recent decision to remove revenue producing NAF projects from eligibility for the Japanese Facility Improvement Program is another example where the panel would have opposed the Department's decision. The Department is advised that the panel desires to be informed, *in advance,* when actions are being considered that impact on the NAF/MWR world.

Projects at Reserve Bases

The Air Force requested approval of a multipurpose physical fitness center at the reserve base on the Minneapolis-St. Paul International Airport. Two additional projects at reserve bases are being programmed for fiscal year 1987.

The panel believes that priority for construction should be given to projects supporting the largest active duty needs. Locations like Minneapolis that do not have base housing, and only a small number of active duty personnel, should not receive a high priority, unless located at an isolated or remote site.

In addition, while physical fitness centers are usually built with appropriated funds, there is a prohibition against building MWR

facilities with appropriated funds on reserve bases. The panel also opposes using nonappropriated funds to build facilities on reserve bases.

Temporary Lodging Facilities in the United States

The services have several initiatives that would greatly expand their temporary lodging programs. The Army is considering third party financing for on-base construction of first class, "Marriott-type" hotels. The Navy is requesting permission to accelerate its lodge program through third party financing.

In addition, both the Army and Air Force requested approval for new guest houses and temporary lodging facilities (TLF) that are similar to commercial motels. Once built these projects will be subsidized with appropriated funds. For example, Air Force TLF room rates only cover maid service, while appropriated funds pay for utilities, furnishings and other operations and maintenance costs.

Industry representatives testified that they were willing to build family-oriented facilities off-base, with their own financing, while charging room rates comparable to military facilities.

The panel feels these lodge programs are expanding well beyond their original purpose of providing affordable temporary quarters for families during permanent change of station moves when commercial facilities are not available. For example, the Army program now encompasses short-term transient billeting for single and unaccompanied personnel.

The panel strongly opposes construction of first class hotels on-base in the continental United States unless there are extenuating circumstances. At the same time, the panel endorses the concept of private sector firms building facilities off-base. The services should actively utilize commercial firms able to provide appropriate facilities off-base. The services should also consider third party financing for on-base facilities that are comparable to their current temporary lodging programs.

No on-base hotel or motel facilities, in any form, may be constructed in the United States without specific panel approval. The services must also continue to receive local commercial approval before requesting additional projects within the United States. In addition, new guest houses and TLF's being built with NAF should be operated on a self-sufficient basis. Appropriated dollars should not be used to subsidize unrealistically low room rates. The goal for these new facilities should be to operate under self-sufficiency, with minimum appropriated fund support, while providing savings in the range of 20–25%.

Appropriated Fund Support for Profit Generating Projects

A number of the projects requested are profit generators like bowling centers, golf courses and marinas. Testimony received during the hearings revealed that many of these projects in the United States are being subsidized with appropriated funds. For example, some bowling centers are pricing their products at 50% to 75% below civilian centers because of the subsidy. Others are using appropriated funds to resurface their bowling alleys or pay utilities. At the same time, Air Force marinas are using the subsidy to

hire fishing boat captains and pay utilities for boat owners. Other Air Force locations continue to use appropriated funds on their golf courses for maintaining tees and greens.

These practices occur because OSD regulations allow varying interpretations of what is eligible for appropriated fund support. In addition, the services are not ensuring that these operations are run like businesses. Both areas need to change.

There is, admittedly, an obligation to provide some taxpayer support—like major repair and maintenance of facilities. However, managers of these businesses should strive to cover minor construction, capital purchases and all operating expenses, provide a reasonable savings and produce a profit. Using appropriated funds for these normal business expenses encourages inefficient management and unreasonably low fee structures.

The panel opposes using appropriated funds to operate these activities in the United States. The Department should revise its regulations to eliminate appropriated fund support for personnel and other operational expenses. The panel feels these operations should be run like businesses, providing savings comparable to commissaries and exchanges—i.e., 20% to 50%—while minimizing appropriated fund support. Naturally, exemptions can be made for remote or isolated locations.

The panel is approving the profit generating projects in this year's program with the understanding that the Department will revise its regulations and the services will operate these type activities under the panel's guidance. The Department should notify the panel if any requested project cannot be operated under these conditions as economically viable activities.

Construction Time and Cost

For the past two years the panel has questioned the lengthy construction time, and high cost, of NAF projects. Testimony during the hearings revealed that a number of MWR projects have taken 3 to 5 years to design and build. These are not complex projects, but rather bowling centers, youth facilities, playing fields, etc., that are routinely built by the commercial sector. The reasons given for the long construction times—and higher costs—run the gamut from inadequate design, siting problems and numerous change requests, to a lack of priority for building NAF projects.

While MWR facilities take 3 to 5 years, fast food facilities are currently designed and built on military installations within a year. The key ingredients to the success of building fast food facilities include: (a) standard designs and architectural features, (b) preselected equipment, and (c) using contractors who specialize in building these restaurants. These factors appear to be very adaptable to NAF projects with their commerical counterparts.

The military construction subcommittees have also questioned the lengthy construction time and high cost of appropriated funded projects. They have authorized several one-step, turnkey, competitive selection projects as a potential solution to reduce construction time and cost. Several NAF projects have used a turnkey approach in the past. The panel agrees that turnkey projects, along with the use of standard designs, preselected equipment, and spe-

cialized contractors, offer the potential for savings and reduced construction times.

Before submitting their fiscal year 1987 programs, the panel requests the services to:

—identify those projects that have used, or are currently using, a turnkey procurement approach and provide an analysis of benefits derived from this technique.

—select several fiscal year 1987 projects in each category for turnkey contracting.

—identify problems preventing the use of turnkey procurement, standard designs, preselected equipment or specialized contractors.

—identify fiscal year 1987 projects that are not standard designs.

Military Clubs

This year the Army requested approval for seven club projects totaling almost $14 million, including two "family health centers" at Fort Sill Oklahoma. These health clubs are a radical attempt to address the problem of declining club patronage and profitability. Current OSD policy states that sports and recreation facilities should be open to the installation population at large, in the same manner that municipal services are offered to all residents in civilian communities. The Army has not requested a waiver for these projects. Both projects are deferred until the Army receives a waiver from OSD and provides the detailed analysis requested by the panel.

The panel approves other justified club projects this year because it believes they are needed. However, it puts the Department on notice that future club projects will not be considered until an in-depth study concerning the future role of clubs vis-a-vis alcohol deglamorization, declining enrollment, etc. is submitted to the panel.

In addition, the Department has not resolved the problem of some clubs receiving disproportionate amounts of appropriated fund support based on a per capita analysis. This problem is not limited to Army small clubs but exists in all services and at Defense-run installations like DLA.

The Readiness Subcommittee will seriously consider reducing next year's authorization request unless definitive solutions are proposed by the Department. Prior to March 1, 1986 the Department should submit a report to the panel that (a) identifies any club in the United States receiving more appropriated funds than the services' per capita MWR distribution, and (b) lists actions to reduce these amounts.

Consolidated Class VI Stores and MWR Warehouses

The Army requested three projects for consolidated Class VI package beverage stores and MWR warehouses at Forts Jackson, Bliss and Lee. This is the third year that consolidated facilities have been requested but the panel is still not clear whether their higher cost is offset by potential savings. The Army has operated a similar facility at Fort Rucker for almost two years. To resolve this issue the panel is deferring the three requested projects pending an

analysis by the Army Audit Agency of consolidated operations at Fort Rucker.

Prioritization

The panel has noted for the past few years that the services were allocating projects among commands rather than prioritizing by service-wide need. This year's hearings revealed that, while the services have identified their backlogs and made improvements to their 5-year programs, prioritization practices have not changed.

Allocating a few projects to each command is an easy process but ignores addressing the harder question of "greatest" need. The panel still believes the services must develop systems that allocate projects by greatest need, regardless of command. If special emphasis is given to hardship factors like location (overseas vs. U.S.; isolated/remote vs. urban), number of troops to be served, etc., then priorities based on greatest need can be developed.

Several organizations have started to develop these systems. The Marine Corps, for example, has a point system that stresses need, location and patron preference. MWR projects are then prioritized by their scores.

The panel recommends development of service-wide prioritization systems based on greatest need. The services should report on their progress toward this goal prior to submitting their fiscal year 1987 NAF construction programs.

Fast Food Facilities

The panel is approving a number of fast food facility projects with the proviso that they are all subject to the language in the House/Senate Authorization Conference Report. The following fast food projects are deferred because of project uncertainties or delays.

Garmisch, Ge.
Bergstrom AFB, TX
Grissom AFB, IN
McChord AFB, WA
Myrtle Beach AFB, SC
Patrick AFB, FL
Plattsburgh AFB, NY
Sheppard AFB, TX
Schweinfurt (D.K.)
Darmstadt (F.K.)

All other U.S. Air Force fast food projects are deferred until after May 1, 1986.

Military Construction Deferrals

Congressional committees that review military construction requests have deferred projects in several countries because of treaty negotiations or the uncertainty of our presence in the near future. In concert with their actions the panel defers the following projects:

Zaragoza AB, Spain	$1.75 million commissary.
Torrejon AB, Spain	Burger King.
Fort Clayton, Panama	$500,000 youth ballfield.
Iraklion, Greece	$700,000 commissary.

Other Deferrals

The panel defers the following projects because of excessive cost, inadequate justification or incomplete design.

Location	Project	Cost (millions)	Reason for deferral
MCAS Tustin	SNCO club	$1.2	Change to modular design
Fort Carson	Outdoor recreation facility	3.7	Cost/size
Fort Detrick	Guest House	.7	Cost/benefit
	Bowling/skill development	1.7	Cost/benefit
Seneca AD	Skill development	.5	Cost/benefit
Fort Dix	Skill development	2.4	Cost/size
New Cumberland	Club	2.2	Cost/benefit
NAS Oceana	Golf clubhouse	.9	Need
Fort Myer	Bowling center	2.8	Justification
Fort Story	Bowling center	1.2	Cost/benefit
Anderson AFB, Guam	Temporary lodging	3.4	Cost/need
NAVACT, London	Youth center	.6	Need

Conditional Approvals

The following projects are approved under the conditions stated. Camp Casey Bowling Center—Will be colocated with previously approved project. Misawa AB Bowling Center—Reduced cost of $3.6 million.

Other Issues

NAVY CLASS VI DISTRIBUTION PROPOSAL

The Navy requested approval to modify current practices on distributing Class VI profits to subsidize quality entertainment in its clubs. Currently these profits are distributed to base MWR activities or used for capital improvements in clubs or Class VI stores. The other services did not make a similar request.

Currently, the panel is strongly opposed to changing profit distribution practices and will not approve any policy modification unless there is a compelling reason. Since the Navy did not provide any supporting analysis, the panel defers any action on the request. The Navy should submit its proposal to OSD and the other services. Once a Departmental position is reached the panel will consider its recommendations.

TWO YEAR CONSTRUCTION AUTHORIZATION

The Air Force requested that construction authorization be expanded to a two-year period in place of the current one-year period. The panel approves the request and directs the Department to modify its instructions to reflect this change. In the future the panel plans to request departmental audit organizations to assess the performance of the services' NAF construction systems.

NAVY RESUBMITTALS

The Navy submitted for reapproval 13 of the 15 projects contained in its fiscal year 1985 program. The reasons given for these

projects being delayed, and contracts not awarded on time last year, cover the entire spectrum of possible construction problems. The panel approves these projects with the proviso that the Navy must report back within six months on the actions being taken to improve its NAF construction system.

OUT-OF-CYCLE REPORTS

The DOD instruction on NAF construction allows submitting urgent or unforeseen requirements to the panel out-of-cycle. These supplementary reports became a steady stream during the last year. The panel emphasizes that these reports should be kept to a *minimum*, for *urgent* and *unforeseen* projects.

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